



# Memorandum

TO: MAYOR & CITY COUNCIL

FROM: Councilmember Donald Rocha

SUBJECT: HOUSING IMPACT FEE

DATE: November 14, 2014

Approved

Date

11/14/14

## RECOMMENDATION

Accept the staff recommendation and authorize a Housing Impact Fee to be set by resolution with the following considerations:

1. Defer the decision to index the fee until the first five year update of the nexus fee;
2. Authorize staff to do additional research on a potential non-residential development fee as an additional source of revenue for affordable housing development;
3. Schedule a review of the Housing Impact Fee to be brought along with the results of the non-residential development fee for a potential fee adjustment, as well as additional research on the following development types:
  - o The economic feasibility of the fee on a micro-unit product type, and
  - o Any negative impacts of the fee on small-scale infill development;
4. As part of the 2015 Major Update of the 2040 General Plan, conduct a comprehensive review of the current framework for development in Urban Villages, including the distribution of jobs and housing between villages and the Village phasing plan, in order to determine whether we need to adjust our approach in order to ensure successful implementation of the Urban Village model.

## ANALYSIS

First, I think it is important to acknowledge the tireless work that our staff and the community stakeholders have invested in this policy development and who have engaged with this process for the full two years of policy development. While many of us may disagree with the positions of our colleagues, we can't say that we haven't had a full vetting of this proposal since, as this referral was made to staff in November of 2012.

Many of us realize the difficulty of affording housing in this valley, or can at least empathize with those who are struggling. As policymakers we all appreciate that there is not going to be one silver bullet for this issue, but a series of smaller but progressive changes to move us towards greater housing security for our residents. For those changes to begin, we need to have a comprehensive discussion that allows different variables impacting housing production and affordability to be addressed, which is why I've proposed more research and further discussions in addition to the adoption of a fee.

To be sure, a revenue stream dedicated to affordable housing is imperative, but not without risk. To ensure that we're continuing to keep the pulse of this fee and development in San Jose, we should continue to track development, the revenue generated by this fee and any additional fees dedicated to affordable development, and our pipeline of building affordable units. We have been told that micro units or more "affordable by design" product types could help us in our goal. I think it's important that we authorize additional economic feasibility research to be done on a micro unit product type. Additionally, staff is directed to monitor the development environment for small, infill projects at 19 or fewer units to ensure that a fee is not adversely impacting this type of development.

As a former Redevelopment Agency employee, I support economic development and have a long history of supporting our economic development strategy. Since the adoption of the 2040 General Plan we've loudly proclaimed our commitment to creating jobs and exercising restraint when it comes to converting job land for housing purposes. Simultaneously we've experienced the growth of homeless encampments and seen long-time residents leave the area in search of a more affordable place to raise their families. Our answer to the affordability question has been that we need to build more housing of all types, but in my opinion, our own General Plan may make that task challenging.

In outlining the dilemma we're facing, I am asking us to be thoughtful, not illogical. Developing affordable housing means that we need to actually create opportunity sites for housing to be developed, for both market rate and affordable units. Placing a fee on the few sites left available for this type of development may not result in much of a revenue source for us. It is for this reason that I am asking that we discuss some of the planning steps associated with our urban villages in the upcoming 2015 Major Update. With a new council, the conversation will be educational and it will allow us an opportunity to check-in, ensuring that our policies are not interfering with market readiness and viability of our Urban Village product type. I raised this issue during the Housing Element discussion as a concern for our ability to feasibly implement our strategy, and it would be a shame to miss out on success because our decision makers wouldn't have a conversation about a very complex issue.

Similarly, it seems out of sorts for us to place a fee on housing after constraining its development. It seems that it would be much more logical and fair to place a significantly lower fee on both commercial and residential development. I don't propose that we do that today, but we should ask that question and staff should begin the exploratory work on non-residential development fees. Once we complete the initial research for additional fee models, if a future council chooses to pursue that fee, we may be able to lower the housing impact fee and still keep our affordable housing revenue stream whole. This is commonly understood as lowering the rate and broadening the base.

Ultimately, I am in complete agreement that we have to act. How we act and our commitment to continuing to act is what I think we should be considering. While we may feel good about a decision to set a housing impact fee, this issue is far more complex than any one action that we could address in one afternoon. Hopefully, this is the beginning of a conversation which will lead to thoughtful questions and solutions, inclusive stakeholder outreach and input, and a genuine effort to ensure that ours is a city that works for everyone.